

**PORT ARTHUR
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For The Year Ended August 31, 2016

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
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CERTIFICATE OF THE BOARD

Port Arthur Independent School District

Name of School District

Jefferson

County

123-907

Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2016, at a meeting of the board of trustees of such school district on January 26, 2017.



President of the Board



Secretary of the Board

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Port Arthur Independent School District
Port Arthur, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Port Arthur Independent School District (the "District") as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this included the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also included evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Trustees
Port Arthur Independent School District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2016, and respective changes in the financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 14, and the budgetary comparison information and the required pension system information on pages 55 to 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information such as the Texas Education Agency ("TEA") required schedules, as listed in the table of contents, and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for additional analysis and are not a required part of the basic financial statements.

The other supplementary information described above is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the Board of Trustees
Port Arthur Independent School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
January 25, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Port Arthur Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2016.

Financial Highlights

The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$19,430,502 (*net position*). Of this amount, \$10,512,155 (unrestricted *net position*) may be used to meet the District's ongoing obligations to students and creditors.

- The District's total net position decreased by \$4,464,475, before the prior period adjustment to decrease fund balance by \$792,948.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$166,615,618, an increase of \$28,438,412 in comparison with the prior year. The increase in governmental fund balances was primarily due to an increase in the capital projects fund of \$31,963,168 due to the issuance of the Unlimited Tax School Building Bonds, Series 2016A in the amount of \$41,460,000, in addition to an increase in the debt service fund of \$1,415,237 due to the issuance of Unlimited Tax Refunding Bonds, Series 2016B and 2016C for a total amount of \$53,050,000.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$9,490,554 or 12 percent of total general fund expenditures.
- The District's total bonded debt increased by \$33,345,000 (10.14 percent) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net position* presents information on all of the District's assets and deferred outflows of resources, liabilities and deferred inflows, with the difference between the four reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The *government-wide financial statements* of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Health Services, Student Transportation, Food Services, Extracurricular Activities, General Administration, Facilities Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Bond Issuance Costs and Fees, Facilities Repairs and Maintenance, Payments to Juvenile Justice Alternative Education Programs and Payments to Appraisal District.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue fund, debt service fund, and the capital projects fund, all of which are considered to be major funds. The District adopts an annual appropriated budget for its general fund, debt service fund, and Child Nutrition Program.

Fiduciary Funds

The fiduciary fund is used to account for resources held for the benefit of students. The fiduciary fund is *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

The District also has a private purpose trust fund used to account for donations for scholarship funds that are received by the District that are to be awarded to current and former students.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds.

Other Information

The schedules and other supplementary information are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$19,430,502 at the close of the most recent fiscal year.

The largest portion of the District's net position is its investment in capital assets (e.g., land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position in the amount of \$9,208,479 is restricted for federal and state programs and debt service. The remaining balance of *unrestricted net position* (\$10,512,155) may be used to meet the District's ongoing obligations to students and creditors. The District's net position increased by \$4,464,475, before the prior period adjustment to decrease net position by \$792,948.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Port Arthur Independent School District's Net Position

	Governmental Activities	
	2016	2015
Current and other assets	\$ 179,609,462	\$ 153,720,832
Capital and non current assets	247,149,795	244,554,172
Total Assets	426,759,257	398,275,004
Deferred Outflows of Resources		
Deferred charge on refunding	10,061,172	4,990,486
Deferred outflows relating to pension activities	2,229,464	1,808,288
Total Deferred Outflows of Resources	12,290,636	6,798,774
Current liabilities	8,167,853	6,645,252
Long term liabilities	409,228,996	370,567,831
Total Liabilities	417,396,849	377,213,083
Deferred Inflows of Resources		
Deferred inflows relating to pension activities	2,222,542	3,172,770
Total Deferred Inflows of Resources	2,222,542	3,172,770
Net Position		
Net investment in capital assets	(290,132)	2,933,160
Restricted	9,208,479	7,277,234
Unrestricted	10,512,155	14,477,531
Total Net Position	\$ 19,430,502	\$ 24,687,925

Governmental Activities

Governmental activities decreased the District's net position by \$4,464,475, before the prior period adjustment. Key elements of this decrease are as follows:

Revenues are generated primarily from two sources, program and general revenues. Grants and contributions totaling \$20,240,440 represent 17 percent of total revenues and property taxes (\$69,324,631) represent 60 percent of total revenues. State aid totaled \$23,605,167 or 20 percent of total revenues. The remaining \$2,966,311 or 3 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

The primary functional expense of the District is instruction (\$54,636,048), which represents 45 percent of total expenses. Facilities maintenance and operations (\$12,761,313) represents 11 percent of total expenses. Interest on long-term debt (\$13,362,910) represents 11 percent of total expenses. The remaining individual functional categories of expenses are each less than 5 percent of total expenses.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Port Arthur Independent School District's Changes in Net Position

	Governmental Activities	
	2016	2015
Program Revenues		
Charges for services	\$ 2,103,431	\$ 2,539,068
Operating grants	20,229,948	19,276,448
General Revenues		
Property taxes	69,324,631	77,242,812
State aid	23,605,167	19,696,118
Grants and contributions not restricted	10,492	62,756
Investment earnings	819,990	259,076
Other	42,890	1,077,018
Total Revenues	116,136,549	120,153,296
Expenses		
Instruction	54,636,048	51,297,441
Instructional resources and media services	1,112,816	1,230,590
Curriculum and staff development	1,402,846	1,604,549
Instructional leadership	2,378,491	2,215,577
School leadership	5,793,303	5,503,254
Guidance, counseling, and evaluation services	2,723,663	2,919,627
Social work services	591,597	565,961
Health services	1,358,744	1,276,919
Student transportation	3,369,769	3,389,940
Food services	6,608,109	6,498,928
Extracurricular activities	2,095,981	2,003,223
General administration	5,930,227	5,920,727
Facilities maintenance and operations	12,761,313	12,958,386
Security and monitoring services	2,048,024	1,988,058
Data processing services	2,028,318	1,826,244
Community services	334,993	379,025
Interest on long-term debt	13,362,910	11,622,428
Debt issuance costs and fees	1,038,962	2,033,552
Facilities repairs and maintenance	189,259	115,779
Payments to Juvenile Justice AEP	108,000	108,000
Payments to appraisal district	727,651	467,259
Total Expenses	120,601,024	115,925,467
Increase (Decrease) in Net Position	(4,464,475)	4,227,829
Beginning Net Position	24,687,925	32,436,536
Prior period adjustment	(792,948)	(11,976,440)
Ending Net Position	\$ 19,430,502	\$ 24,687,925

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$166,615,618 an increase of \$28,438,412 in comparison with the prior year, including a prior period adjustment that decreased fund balance by \$792,948. The increase in ending governmental fund balances is primarily due to an increase of \$31,963,168 in the capital projects fund and an increase of \$1,415,237 in the debt service fund, due to the issuance of new bonds.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$9,490,554, while total fund balance reached \$24,517,168. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 12 percent of total general fund expenditures, while total fund balance represents 32 percent of that same amount.

The debt service fund has a total fund balance of \$7,504,329, all of which is restricted for the payment of debt service. The increase in the debt service fund balance during the current year of \$1,415,237 was attributable to the issuance of new refunding bonds.

The capital projects fund has a total fund balance of \$134,066,312, all of which is restricted for authorized construction and technology projects/enhancements. The net increase in fund balance of \$31,963,168 during the current year was primarily due to the issuance of the new bond.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget as considered necessary. Actual expenditures were \$3.5 million below the final budget amendments. The most significant positive variances were in the instruction and facilities maintenance and operations variances.

Resources available were \$0.4 million above the final budgeted amounts. This was primarily attributable to earning higher state revenues than anticipated.

Other financing uses were \$0.5 million below the final budgeted amounts. This was primarily attributable to the court ordered tax refunds being lower than anticipated.

The review of the final amended budget versus actual for the general fund reflected a positive budget variance in the amount of \$3,765,417 thus eliminating the need to draw upon existing fund balances.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Assets and Long-term Liabilities

Capital Assets

The District's investment in capital assets for its governmental type activities as of August 31, 2016, amounts to \$247,149,795 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment and construction in progress. Major capital asset events during the current fiscal year included the following:

	Balance September 1, 2015	Additions	(Retirements) and Transfers	Balance August 31, 2016
Capital assets, not being depreciated				
Land	\$ 6,767,598	\$ 2,850		\$ 6,770,448
Construction in progress	16,443,480	10,340,896	(7,068,071)	19,716,305
Total Capital Assets, not being depreciated	23,211,078	10,343,746	(7,068,071)	26,486,753
Capital assets, being depreciated				
Buildings and improvements	297,654,863		7,068,071	304,722,934
Furniture and equipment	24,928,233	3,678,622	(42,890)	28,563,965
Total Capital Assets, being depreciated	322,583,096	3,678,622	7,025,181	333,286,899
Less accumulated depreciation for:				
Buildings and improvements	(84,997,901)	(9,981,301)		(94,979,202)
Furniture and Equipment	(16,242,101)	(1,445,444)	42,890	(17,644,655)
Total Accumulated Depreciation	(101,240,002)	(11,426,745)	42,890	(112,623,857)
Governmental Capital Assets	\$ 244,554,172	\$ 2,595,623	\$	\$ 247,149,795

Additional information on the District's capital assets can be found in Note 4 of the notes to the financial statements.

Long-term Liabilities

At the end of the current fiscal year, the District had \$362,215,000 in bonded debt outstanding, an increase of \$33,345,000 over the previous year. Upon approval by the State of Texas, the District's bonds are sold with a "AAA" rating and are guaranteed through Permanent School Fund. The underlying rating of the bonds from Fitch Ratings is "AA-" and from Moody's Investors Service is "Aa3" for general obligation debt.

Changes to long-term debt, for the year ended August 31, 2016, are as follows:

	Balance September 1, 2015	Additions	Retirements	Balance August 31, 2016
General obligation bonds	\$ 328,870,000	\$ 94,510,000	\$ (61,165,000)	\$ 362,215,000
For issuance premiums/discounts	19,844,642	10,628,402	(1,120,633)	29,352,411
Accrued compensated absences	1,885,043	610,823	(562,492)	1,933,374
Accreted interest on premium compound interest bonds	1,648,593	31,407	(1,680,000)	
Property tax lawsuits settlements and refunds due	7,868,318	1,836,653	(5,680,165)	4,024,806
Other long-term liability	79,419			79,419
	\$ 360,196,015	\$ 107,617,285	\$ (70,208,290)	\$ 397,605,010

Additional information on the District's long-term liabilities can be found in Note 6 of the notes to the financial statements.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Economic Factors and Next Year's Budgets and Tax Rates

In the past local elected school boards had the authority to raise Maintenance and Operations (M&O) taxes to generate more revenue. However, that changed when House Bill 1 (HB1) was enacted in 2006. The Texas Legislature barred school districts from raising their M&O tax without voter approval. Therefore, the M&O tax rate (\$1.04) for 2016-17 will remain the same. The Interest and Sinking Rate was slightly increased from \$0.3131 to \$0.3135.

Projected revenues for the 2016-17 General Fund are \$68.7M, before TRS Contributions. Revenues for the General Fund are generated from the following primary resources:

- Local Funding - \$41.9M
- State Funding - \$25.4M
- Federal Funding - \$1.4M

The 2016-2017 state revenue projections are based on an estimated average daily attendance (ADA) of 7,934 students. In addition to those funds shown above, the district also records recognition for the state's contribution in the amount of 6.8% for teacher retirement on behalf of all TRS employees in the district plus an additional 1% for TRS Care totaling to 7.8%.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District's Business Office, Port Arthur Independent School District, P. O. Box 1388, Port Arthur, Texas 77641-1388.

BASIC FINANCIAL STATEMENTS

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET POSITION

August 31, 2016

Data Control Codes		Governmental Activities
	Assets	
1110	Cash and cash equivalents	\$ 168,365,207
1220	Property taxes receivables, net	5,767,419
1240	Due from other governments	4,516,664
1250	Accrued interest	279,847
1300	Inventories	680,325
	Capital assets not subject to depreciation:	
1510	Land	6,770,448
1580	Construction in progress	19,716,305
	Capital assets net of depreciation:	
1520	Buildings and improvements, net	209,743,732
1530	Furniture and equipment, net	10,919,310
1000	Total Assets	<u>426,759,257</u>
	Deferred Outflows of Resources	
1700	Deferred charge on refunding	10,061,172
1705	Deferred outflows relating to pension activities	2,229,464
	Total Deferred Outflows of Resources	<u>12,290,636</u>
	Liabilities	
2110	Accounts payable	2,447,672
2140	Interest payable	625,999
2150	Payroll deductions and withholdings	941,957
2160	Accrued wages payable	3,597,157
2180	Due to other governments	18,333
2200	Accrued expenses	142,311
2300	Unearned revenue	394,424
	Noncurrent Liabilities:	
2501	Due within one year	12,680,056
2502	Due in more than one year	384,924,954
2540	Net Pension Liability	11,623,986
2000	Total Liabilities	<u>417,396,849</u>
	Deferred Inflows of Resources	
2605	Deferred inflows relating to pension activities	2,222,542
	Total Deferred Inflows of Resources	<u>2,222,542</u>
	Net Position	
3200	Net investment in capital assets	(290,132)
	Restricted for:	
3820	Federal and state programs	517,766
3850	Debt service	8,690,713
3900	Unrestricted	10,512,155
3000	Total Net Position	<u>\$ 19,430,502</u>

See Notes to the Financial Statements

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2016

Exhibit B-1

Data Control Codes	Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	
	Governmental activities:				
11	Instruction	\$ 54,636,048	\$ 731,679	\$ 9,363,483	\$ (44,540,886)
12	Instructional resources and media services	1,112,816	5,982	314,703	(792,131)
13	Curriculum and staff development	1,402,846	5,982	680,901	(715,963)
21	Instructional leadership	2,378,491	39,479	377,721	(1,961,291)
23	School leadership	5,793,303	79,916	467,692	(5,245,695)
31	Guidance, counseling, and evaluation services	2,723,663	23,448	500,693	(2,199,522)
32	Social work services	591,597	27,516	217,544	(346,537)
33	Health services	1,358,744	22,492	1,621,797	285,545
34	Student transportation	3,369,769	73,456	312,058	(2,984,255)
35	Food service	6,608,109	465,981	5,357,681	(784,447)
36	Extracurricular activities	2,095,981	111,208	47,093	(1,937,680)
41	General administration	5,930,227	29,908	108,905	(5,791,414)
51	Facilities maintenance and operations	12,761,313	129,546	309,734	(12,322,033)
52	Security and monitoring services	2,048,024	11,963	26,302	(2,009,759)
53	Data processing services	2,028,318	11,963	66,896	(1,949,459)
61	Community services	334,993	5,503	155,623	(173,867)
72	Interest on long-term debt	13,362,910		265,631	(13,097,279)
73	Debt issuance costs and fees	1,038,962		10,981	(1,027,981)
81	Facilities repairs and maintenance	189,259	327,409	24,510	162,660
95	Payments to Juvenile Justice AEP	108,000			(108,000)
99	Payments to appraisal district	727,651			(727,651)
TG	Total governmental activities	\$ 120,601,024	\$ 2,103,431	\$ 20,229,948	(98,267,645)

Data Control Codes		
	General revenues:	
	Taxes:	
MT	Property taxes, levied for general purposes	44,160,043
DT	Property taxes, levied for debt service	25,164,588
SF	State-aid formula grants	23,605,167
GC	Grants and contributions not restricted	10,492
IE	Investment earnings	819,990
MI	Miscellaneous	42,890
TR	Total general revenues	93,803,170
CN	Change in net position	(4,464,475)
NB	Net Position - beginning	24,687,925
PA	Prior period adjustments	(792,948)
NE	Net Position - ending	\$ 19,430,502

See Notes to the Financial Statements

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Special Revenue Fund</u>
Assets			
1110 Cash and cash equivalents	\$ 24,831,366	\$ 7,413,764	\$ 1,044,640
Receivables:			
1220 Property taxes - delinquent	4,293,523	2,114,720	
1230 Allowance for uncollectible taxes	(429,352)	(211,472)	
1240 Due from other governments	1,611,315		2,905,349
1250 Accrued interest			
1260 Due from other funds	3,199,904		480,329
Other assets:			
1310 Inventories, at cost	519,988		160,337
1000 Total assets	<u>\$ 34,026,744</u>	<u>\$ 9,317,012</u>	<u>\$ 4,590,655</u>
Resources and Fund Balance			
Liabilities			
Current liabilities			
2110 Accounts payable	\$ 1,015,337	\$ 300	\$ 288,907
2150 Payroll deductions and withholdings	941,813		144
2160 Accrued wages payable	3,172,370		421,254
2170 Due to other funds	740,449		2,939,784
2180 Due to other governments			18,333
2190 Due to student groups and others	79,419		
2200 Accrued expenditures			
2300 Unearned revenues			394,424
2000 Total liabilities	<u>5,949,388</u>	<u>300</u>	<u>4,062,846</u>
Deferred Inflows of Resources			
2601 Unavailable revenue - property taxes	3,560,188	1,812,383	
Total deferred inflows of resources	<u>3,560,188</u>	<u>1,812,383</u>	
Fund Balances			
Non-Spendable			
3410 Inventories	519,988		
Restricted			
3450 Federal/State grant funds			517,766
3470 Capital acquisitions and contractual obligations			
3480 Debt service		7,504,329	
3490 Other restricted			
Committed			
3510 Construction	2,207,662		
3520 Claims and judgments	5,528,000		
3545 Other committed	6,770,964		10,043
3600 Unassigned	<u>9,490,554</u>		
3000 Total fund balances	<u>24,517,168</u>	<u>7,504,329</u>	<u>527,809</u>
4000 Total liabilities, deferred inflows of resources and fund balance	<u>\$ 34,026,744</u>	<u>\$ 9,317,012</u>	<u>\$ 4,590,655</u>

See notes to the financial statements.

Exhibit C-1

<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
\$ 135,075,437	\$ 168,365,207
	6,408,243
	(640,824)
	4,516,664
279,847	279,847
	3,680,233
	680,325
<u>\$ 135,355,284</u>	<u>\$ 183,289,695</u>
\$ 1,143,128	\$ 2,447,672
	941,957
3,533	3,597,157
	3,680,233
	18,333
	79,419
142,311	142,311
	394,424
<u>1,288,972</u>	<u>11,301,506</u>
	5,372,571
	<u>5,372,571</u>
	519,988
	517,766
134,066,312	134,066,312
	7,504,329
	2,207,662
	5,528,000
	6,781,007
	9,490,554
<u>134,066,312</u>	<u>166,615,618</u>
<u>\$ 135,355,284</u>	<u>\$ 183,289,695</u>

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET POSITION
August 31, 2016

Exhibit C-2

Data Control Codes		
	Total fund balance, governmental funds	\$ 166,615,618
	Amounts reported for governmental activities in the statement of net position are different because:	
1	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable	247,149,795
2	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).	5,372,571
3	The deferred charge on refunding is not a current financial resource and is not reported on the fund financial statements	10,061,172
4	Deferred Outflows relating to pension activities	2,229,464
5	Interest payable on general obligation bonds are due within a year but are not included in the fund financial statements.	(625,999)
	Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
6	General obligation bonds	(362,215,000)
7	Accrued compensated absences	(1,933,374)
8	Premium/discount on issuance of bonds	(29,352,411)
9	Property tax lawsuits settlements	(4,024,806)
10	Net Pension Liability	(11,623,986)
11	Deferred Inflows relating to pension activities	(2,222,542)
19	Total net position - governmental activities	<u>\$ 19,430,502</u>

See notes to the financial statements.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

Exhibit C-3

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - GOVERNMENTAL FUNDS

For the Year Ended August 31, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues					
5700 Local, intermediate, and out-of-state	\$ 45,083,838	\$ 25,239,440	\$ 1,075,004	\$ 1,051,625	\$ 72,449,907
5800 State program revenues	30,668,470	276,612	290,021		31,235,103
5900 Federal program revenues	1,438,833		13,566,721		15,005,554
5020 Total revenues	<u>77,191,141</u>	<u>25,516,052</u>	<u>14,931,746</u>	<u>1,051,625</u>	<u>118,690,564</u>
Expenditures					
Current:					
0011 Instruction	41,169,727		6,347,331		47,517,058
0012 Instructional resources and media services	725,839		261,712		987,551
0013 Curriculum and instructional staff development	616,182		612,682		1,228,864
0021 Instructional leadership	1,805,570		302,372		2,107,942
0023 School leadership	4,870,136		258,652		5,128,788
0031 Guidance, counseling and evaluation services	2,045,339		364,236		2,409,575
0032 Social work services	287,845		238,849		526,694
0033 Health services	812,445		392,953		1,205,398
0034 Student transportation	2,750,720		226,043		2,976,763
0035 Food services	140,266		5,743,671		5,883,937
0036 Extracurricular activities	1,811,768		17,883		1,829,651
0041 General administration	3,471,693			19,724	3,491,417
0051 Facilities maintenance and operations	11,282,438		50,061		11,332,499
0052 Security and monitoring services	1,592,141				1,592,141
0053 Data processing services	1,843,997				1,843,997
0061 Community services	166,195		139,931		306,126
Debt service					
0071 Debt service - principal		6,990,000			6,990,000
0072 Debt service - interest		15,681,448			15,681,448
0073 Debt issuance cost & fees		648,237		390,725	1,038,962
Capital outlay					
0081 Facilities acquisition and construction	20,510			14,068,733	14,089,243
Intergovernmental					
0095 Payments to Juvenile Justice AEP	108,000				108,000
0099 Payments to appraisal district	727,651				727,651
6030 Total expenditures	<u>76,248,462</u>	<u>23,319,685</u>	<u>14,956,376</u>	<u>14,479,182</u>	<u>129,003,705</u>
1100 Excess (deficiency) of revenues over expenditures	<u>942,679</u>	<u>2,196,367</u>	<u>(24,630)</u>	<u>(13,427,557)</u>	<u>(10,313,141)</u>
Other Financing Sources (Uses)					
7901 Refunding bond issue		53,050,000			53,050,000
7911 Issuance of bonds				41,460,000	41,460,000
7912 Sale of real and personal property	42,890				42,890
7915 Operating transfers in	60,246	43,366	619,694		723,306
7916 Premiums on bonds issued		6,654,311		3,974,091	10,628,402
8911 Operating transfers out	(619,694)		(60,246)	(43,366)	(723,306)
8949 Other uses - court ordered tax refunds	(4,953,672)	(726,493)			(5,680,165)
8949 Other uses - payments to bond refunding escrow agent		(59,802,314)			(59,802,314)
8949 Other uses - payments related to lawsuit settlements	(154,312)				(154,312)
7080 Total other financing sources (uses)	<u>(5,624,542)</u>	<u>(781,130)</u>	<u>559,448</u>	<u>45,390,725</u>	<u>39,544,501</u>
1200 Net change in fund balance	(4,681,863)	1,415,237	534,818	31,963,168	29,231,360
0100 Fund balance - September 1 (beginning)	29,919,306	6,089,092	65,664	102,103,144	138,177,206
Prior period adjustment	<u>(720,275)</u>		<u>(72,673)</u>		<u>(792,948)</u>
3000 Fund balance - August 31 (ending)	<u>\$ 24,517,168</u>	<u>\$ 7,504,329</u>	<u>\$ 527,809</u>	<u>\$ 134,066,312</u>	<u>\$ 166,615,618</u>

See notes to the financial statements.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

Exhibit C-4

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2016

Data Control Codes		
	Net change in fund balances - total governmental funds (from C-3)	\$ 29,231,360
	Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation.	
1	Governmental funds capital outlay	14,022,368
2	Governmental activities depreciation expense	(11,426,745)
3	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(165,945)
4	State Aid revenues removed from the statement of activities reported as revenues in the prior year and not in the prior year fund statements. Reported as current year revenues in the funds for providing current year financial resources.	(4,012,378)
5	Pension contributions made after the net pension liability date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position.	1,050,178
6	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	6,990,000
	Proceeds from issuance of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities and amounts paid to refunding agents are treated as a decrease in long-term liabilities.	
7	Proceeds from issuance of bonds	(94,510,000)
8	Premium on issuance of regular bonds	(10,628,402)
9	Payments to refunding agent	59,802,314
	Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
10	Change in interest payable	105,940
11	Amortization of deferred loss on refunding	(417,572)
12	Amortization of premium/discount	981,577
13	Accumulated accretion	1,648,593
14	Change in compensated absences	(48,331)
15	Pension expense for the pension plan measurement year	(930,944)
16	The property tax lawsuits settlements and property tax refunds are recorded when due and payable. If not due and payable within the fiscal year, the liability and related expenditure is recorded in the government-wide statements.	3,843,512
	Change in net position of governmental activities (see B-1)	\$ (4,464,475)

See Notes to the Financial Statements

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

Exhibit E-1

STATEMENT OF FIDUCIARY NET POSITION

August 31, 2016

Data Control Codes		Private Purpose Trust Funds	Agency Funds
	Assets		
1110	Cash and cash equivalents	\$ 18,625	\$ 237,723
	Total Assets	<u>18,625</u>	<u>237,723</u>
	Liabilities		
2110	Accounts payable		10,399
2190	Due to others		<u>227,324</u>
2000	Total Liabilities		<u>\$ 237,723</u>
	Net Position		
3800	Held in trust for other purposes	<u>\$ 18,625</u>	

See Notes to the Financial Statements.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

Exhibit E-2

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended August 31, 2016

	Private Purpose Trust Funds
Additions	
Gifts and contributions	\$ 14,534
Miscellaneous	<u>2</u>
Total Additions	<u>14,536</u>
Deductions	
Scholarships awarded	<u>13,100</u>
Total deductions	<u>13,100</u>
Change in net position	1,436
Net Position beginning of year	<u>17,189</u>
Net Position end of year	<u><u>\$ 18,625</u></u>

See Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The Port Arthur Independent School District (the “District”) is an independent public educational agency operating under applicable laws and regulations of the State of Texas. The District is autonomously governed by a seven member Board of Trustees elected by the District’s residents.

The District prepares its basic financial statements in conformity with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement of Auditing Standards No. 69* of the American Institute of Certified Public Accountants. Additionally, the District complies with the requirements of the appropriate version of the Texas Education Agency (TEA) *Financial Accountability System Resource Guide* (FASRG) and the requirements of contracts and grants of agencies from which it receives funds.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

Reporting Entity

The District is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these general purpose financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the District’s financial reporting entity. Based on these considerations, the District’s general purpose financial statements do not include any other entities. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the District’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District’s financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include: considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to students or users who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Note 1 - Summary of Significant Accounting Policies (continued)

Government-wide and Fund Financial Statements (continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The fiduciary fund financial statements reflect the District's agency fund, reporting only assets and liabilities, and do not have a measurement focus. The District also has a private purpose trust fund used to account for donations for scholarship funds that are received by the District that are to be awarded to current and former students.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grant revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

- The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects fund* is used to account for proceeds from sales of bonds and other revenues to be used for authorized construction and technology projects/enhancements.
- The *special revenue fund* is used to account for resources restricted to, or designated for specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a special revenue fund. Generally, unused balances are returned to the grantor at the close of the specified project periods. With respect to the food service program, funds are rolled over from year to year for use in the program.

Note 1 - Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Additionally, the District reports the following fiduciary fund types:

- The *private-purpose trust fund* is used to account for donations for scholarship funds that are received by the District that are to be awarded to current and former students for post-secondary education purposes.
- The *agency fund* is used to account for assets held by the District as an agent for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to students or users for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and investment income.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, investment pools, (TexPool and Lone Star), and money market funds.

The District reports all investments at fair value, except for investment pools. The District's investment pools are valued and reported at amortized cost, which approximates fair value.

The District categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Note 1 - Summary of Significant Accounting Policies (continued)

Receivables and Payables (continued)

Property tax receivables include unpaid property taxes at year-end and are shown net of an allowance for uncollectibles. Revenues from property taxes are recognized when levied to the extent they are available. The District considers property taxes as available when collected. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements. Property values are determined by the Jefferson County Appraisal District as of January 1 of each year. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

Inventories

Inventories consisting of supplies and materials are valued at weighted average cost and they include maintenance, transportation, office and instructional supplies, and food service commodities. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Food service commodity inventory is recorded at fair market value on the date received. Commodities are recognized as revenues in the period received when all the eligibility requirements are met. Commodity inventory items are recorded as expenditures when distributed to user locations. A portion of fund balance is classified as nonspendable to reflect minimum inventory quantities considered necessary for the District's continuing operations.

Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, furniture and equipment are reported in the governmental column in the government-wide financial statements. The District's infrastructure includes parking lots and roads associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. Capital assets are defined by the District as assets with an initial, individual cost that equals or exceeds \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings and improvements, and furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	15-60
Furniture, fixtures and equipment	7-25

Note 1 - Summary of Significant Accounting Policies (continued)

Compensated Absences

In the government-wide financial statements, a liability is recorded for all accumulated carryover days as of August 31, 2016. A liability is recorded in the governmental funds for only those employees with carryover days that had retired, but had not yet been paid as of August 31, 2016.

Per the District's policy (DEC Local), all employees, except those who are dismissed for misconduct or whose contracts are nonrenewed or terminated, who have worked for the District for at least three years will be reimbursed for each of the first 30 days of accrued sick leave upon retirement. Professional employees will be paid \$20 per day and other employees will be paid \$15 per day. For each day of accrued sick leave beyond the first 30 days, professional employees shall be paid \$10 and other employees shall be paid \$7.50. Only days earned in the District will be eligible for reimbursement. At the aforementioned rates, professional employees will be paid for accrued sick leave in an amount not to exceed \$1,500 and other employees shall be paid for accrued sick leave in an amount not to exceed \$900. Upon payment of the retiree's accumulated sick leave days, the sick leave balance shall be reduced to zero.

Long-term Obligations

The District's long-term obligations consist of bonded indebtedness, property tax lawsuit settlements, and compensated absences. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities column on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The current requirements for workers' compensation and compensated absences are accounted for in the general fund.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District has two items that qualify for reporting in this category:

- Deferred outflows of resources for refunding - Reported in the government-wide statement of net position, this deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Note 1 - Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources (continued)

- Deferred outflows of resources for pension – Reported in the government-wide statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; 3) differences between expected and actual actuarial experiences and 4) changes in the District's proportional share of pension liabilities. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions; 2) differences between expected and actual actuarial experiences and 3) changes in the District's proportional share of pension liabilities. These pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 1 - Summary of Significant Accounting Policies (continued)

Fund Balance

The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet (Exhibit C-1).
- Restricted fund balance – amounts that can be spent only for specific purposes because of local, state, or federal laws, or externally imposed conditions by grantors or creditors. The fund balances for the Child Nutrition program and other grant programs are classified as restricted.
- Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. the Board of Trustees). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The general fund has committed funds consisting of \$2,207,662 for capital replacement expenditures and/or major maintenance expenditures. In addition the general fund has committed \$5,528,000 for claims and judgments and \$6,770,964 for other operational expenditures such as Management Information System operational expenditures incurred and for extraordinary and/or other emergency events. The special revenue fund has committed the \$10,043 fund balance of the campus activity fund for use at the campuses per board policy.
- Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official or body to which the Board of Trustees delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose. Positive numbers are reported only in the general fund.

The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. A fund balance commitment is further indicated the budget document as a commitment of the fund. Per Policy CE local, assigned fund balance amounts are established by Assistant Superintendent for Business and Finance.

In circumstances where an expenditure is to be made for a purpose for which amounts are available on multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Net Position

Net Position on the Statement of Net Position includes the following:

- Net investment in capital assets - this component of net position consists of capital assets, net accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt will be included in this component of net position.

Note 1 - Summary of Significant Accounting Policies (continued)

Net Position (continued)

- Restricted for federal and state programs - this component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets, which are restricted by federal and state granting agencies.
- Restricted for Debt Service - this component of net position consists of restricted assets reduced by liabilities related to those assets. The assets arise from bond issuances which have constraints placed on them by the bond covenants for the purpose of future debt service payments.
- Unrestricted net position - this component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Data Control Codes

The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (TEA) in the Financial Accountability System Resource Guide. TEA requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.

In accordance with the Resource Guide, the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the Texas State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Resource Guide. Mandatory codes are recorded in the order provided in the Resource Guide.

Use of Estimates

The presentation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

In the current fiscal year, the District implemented the following new standards. The applicable provisions of these new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Note 1 - Summary of Significant Accounting Policies (continued)

New Accounting Standards (continued)

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, clarifies the application of certain provisions of Statement No. 68 with regard to information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures include information about any limitations or restrictions on participant withdrawals.

Note 2 - Deposits and Investments

Cash Deposits:

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities are approved by the Texas Education Agency and shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At August 31, 2016, the carrying amount of the District's cash deposits was \$17,424,330 and the bank balance was \$18,263,985. The District's cash deposits were entirely covered by the FDIC or by pledged collateral as of August 31, 2016.

Investments

The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. The District further limits its investments to obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, collateralized mortgage obligations, no-load money market mutual funds, certain municipal securities, repurchase agreements, or investment pools.

For the year ended August 31, 2016, the District invested in the State of Texas TexPool and Texas Association of School Boards Lone Star Investment Pool. TexPool is duly chartered and overseen by the State Comptroller's Office. The State Street Bank is the custodial bank. The portfolio consists of U.S. T-Bills, T-Notes, collateralized repurchase and reverse repurchase agreements, and no-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally recognized rating service. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by First Public, LLC, and managed by Standish Mellon and American Beacon Advisors. The Bank of New York is the custodial bank. Lone Star Investment Pool is restricted to invest in obligations of the United States or its agencies and instrumentalities; other obligations insured by the United States; fully collateralized repurchase agreements having a defined termination date, secured by obligations described previously; and SEC-registered no-load money market mutual funds, the assets which consist exclusively of the obligations described above.

Note 2 - Deposits and Investments (continued)

Lone Star Corporate Overnight Plus Fund and Lone Star Government Overnight Fund, mutual funds, are duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC, and managed by Bank of New York Mellon and American Beacon Advisors. The Bank of New York is the custodial bank. These mutual funds may invest in all securities authorized under the Investment Act. However, it is the Board's policy not to invest its assets in any one nongovernmental issuer in an amount that exceeds 5 percent of the total fund assets cost.

At year-end, the District's cash and investments balances and the weighted average maturity of these investments were as follows:

	<u>Cost/ Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Cash and deposits		
Governmental activities	\$ 16,540,029	N/A
Fiduciary funds	256,348	
Total cash and deposits	<u>16,796,377</u>	
Investments:		
Certificates of Deposit	<u>627,953</u>	42
Local Government Investment Pools:		
Lone Star	16,102,480	25
TexPool	<u>4,270,240</u>	42
Total Local Government Investment Pools	20,372,720	
Investment Securities		
Municipal Bonds	24,728,250	580
Federal Home Loan Bank	13,385,165	45
Federal Home Loan Mortgage Corporation	14,000,723	499
US Treasury Notes	52,999,607	515
Federal National Mortgage Assoc.	<u>25,710,760</u>	182
Total Investment Securities	<u>130,824,505</u>	
Total Investments	<u>151,825,178</u>	359
Total Cash and Investments	<u>\$ 168,621,555</u>	

Due to the immediate availability of the funds, the District's temporary investments at August 31, 2016 are included in cash and cash equivalents. In addition, the District's temporary investments are reported at amortized cost using Level 1 inputs.

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than 360 days, with the exception of bond proceeds that are matched to a specific cash flow; diversification; and by holding securities to maturity.

Note 2 - Deposits and Investments (continued)

Credit Risk:

State law and the District's investment policy limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations.

Custodial credit risk for investments is the risk that, in event of the failure of the counterparty (e.g. broker dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The District's policy requires that a third party bank trust department hold all securities owned by the District.

The District generally holds all U.S. government securities to maturity. The District did not purchase any derivative investment products during the current year nor participate in any reverse repurchase agreements or security lending agreements during the fiscal year 2016.

The following table includes the portfolio balance, credit rating, and percentage of the portfolio balance by investment type held by the District as of year-end:

	<u>Amortized Cost/ Fair Value</u>	<u>Credit Quality Rating</u>	<u>Percentage of Investments</u>
Investments:			
Certificates of Deposit	\$ 627,953	N/A	0.4%
Local Government Investment Pools:			
Lone Star	16,102,480	AAA	10.6%
TexPool	4,270,240	AAAm	2.8%
Total Local Government Investment Pools	<u>20,372,720</u>		<u>13.4%</u>
Investment Securities			
Municipal Bonds	24,728,250	AA+	16.3%
Federal Home Loan Bank	13,385,165	AA+	8.8%
Federal Home Loan Mortgage Corporation	14,000,723	AA+	9.2%
US Treasury Notes	52,999,607	AA+	34.9%
Federal National Mortgage Assoc.	25,710,760	AA+	16.9%
Total Investment Securities	<u>130,824,505</u>		<u>86.2%</u>
Total Investments	<u>\$ 151,825,178</u>		<u>100%</u>

Concentration of Credit Risk:

The District's investment policy requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Note 3 - Receivables

Receivables as of year-end for the District's individual major and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total
Property Taxes	\$ 4,293,523	\$ 2,114,720	\$	\$	\$ 6,408,243
Due from other governments	1,611,315		2,905,349		4,516,664
Accrued interest				279,847	279,847
Gross Receivables	5,904,838	2,114,720	2,905,349	279,847	11,204,754
Less allowance for doubtful accounts	(429,352)	(211,472)			(640,824)
Net Total Receivables	\$ 5,475,486	\$ 1,903,248	\$ 2,905,349	\$ 279,847	\$ 10,563,930

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the District's total unearned revenue totaled \$394,424.

Note 4 - Capital Assets

Capital asset activity for the year ended August 31, 2016, was as follows:

	Balance September 1, 2015	Additions	(Retirements) and Transfers	Balance August 31, 2016
Capital assets, not being depreciated				
Land	\$ 6,767,598	\$ 2,850		\$ 6,770,448
Construction in progress	16,443,480	10,340,896	(7,068,071)	19,716,305
Total Capital Assets, not being depreciated	23,211,078	10,343,746	(7,068,071)	26,486,753
Capital assets, being depreciated				
Buildings and improvements	297,654,863		7,068,071	304,722,934
Furniture and equipment	24,928,233	3,678,622	(42,890)	28,563,965
Total Capital Assets, being depreciated	322,583,096	3,678,622	7,025,181	333,286,899
Less accumulated depreciation for:				
Buildings and improvements	(84,997,901)	(9,981,301)		(94,979,202)
Furniture and Equipment	(16,242,101)	(1,445,444)	42,890	(17,644,655)
Total Accumulated Depreciation	(101,240,002)	(11,426,745)	42,890	(112,623,857)
Governmental Capital Assets	\$ 244,554,172	\$ 2,595,623	\$	\$ 247,149,795

Note 4 - Capital Assets (continued)

Depreciation expense was charged to functions/programs of the District as follows:

	Function	Depreciation Expense
11	Instruction	5,991,127
12	Instructional resources and media	122,755
13	Curriculum and staff development	171,036
21	Instructional leadership	264,327
23	School leadership	647,245
31	Guidance, counseling and evaluation	303,603
32	Social work services	65,872
33	Health services	150,006
34	Student transportation	378,825
35	Food Services	737,173
36	Extracurricular activities	263,747
41	General administration	438,492
51	Facilities maintenance and operations	1,422,814
52	Security and monitoring services	199,648
53	Data processing services	231,230
61	Community services	38,845
		<u>\$ 11,426,745</u>

Construction Commitments

The District has active construction projects as of August 31, 2016. The projects include the construction and equipment of school facilities. At year-end, the District's commitments with contractors are as follows:

Project	Approved Construction Budget	Construction in Progress	Remaining Commitment
School Building	\$ 166,595,186	\$ 19,673,356	\$ 146,921,830
Other-admin	45,277,459	42,949	45,234,510
	<u>\$ 211,872,645</u>	<u>\$ 19,716,305</u>	<u>\$ 192,156,340</u>

Note 5 - Interfund Receivables, Payables, and Transfers

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll, warehouse ordering and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. Activity between the debt service fund and the capital projects fund results primarily from the capital projects fund interest earnings that are used for debt service payments. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

The composition of interfund balances as of August 31, 2016, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 3,199,904	\$ 740,449
Special Revenue Fund	480,329	2,939,784
	<u>\$ 3,680,233</u>	<u>\$ 3,680,233</u>

Transfers that occurred during fiscal year ended August 31, 2016, are as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
Special Revenue Fund	General Fund	\$ 60,246
General Fund	Special Revenue Fund	619,694
Capital Projects Fund	Debt Service Fund	43,366
		<u>\$ 723,306</u>

Note 6 - Long-term Liabilities

Changes in Long-term Liabilities

Long-term liability activity for the year ended August 31, 2016, was as follows:

	<u>Balance September 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance August 31, 2016</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 328,870,000	\$ 94,510,000	\$ (61,165,000)	\$ 362,215,000	\$ 9,215,000
For issuance premiums/discounts	19,844,642	10,628,402	(1,120,633)	29,352,411	
Accrued compensated absences	1,885,043	610,823	(562,492)	1,933,374	437,324
Accreted interest on premium compound interest bonds	1,648,593	31,407	(1,680,000)		
Property tax lawsuits settlements and refunds due	7,868,318	1,836,653	(5,680,165)	4,024,806	3,027,732
Other long-term liability	79,419			79,419	
	<u>\$ 360,196,015</u>	<u>\$ 107,617,285</u>	<u>\$ (70,208,290)</u>	<u>\$ 397,605,010</u>	<u>\$ 12,680,056</u>

The District issues general obligation bonds to provide funds for the construction and equipment of school facilities, buses, and to refund general obligation bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

Note 6 - Long-term Liabilities (continued)

Changes in Long-term Liabilities (continued)

Bonded long-term debt at August 31, 2016, is comprised of the following individual issues:

Issue	Original Issuance Amount	Interest Rate (%)	Maturity Date	Debt Outstanding
Unlimited Tax School Building Bonds, Series 2008	64,730,000	3.00% to 4.75%	2038	\$ 30,820,000
Unlimited Tax School Building Bonds, Series 2009	75,000,000	3.25% to 4.75%	2039	33,515,000
Unlimited Tax School Building Bonds, Series 2010	49,525,000	2.00% to 4.50%	2037	34,215,000
Unlimited Tax Refunding Bonds, Series 2012	46,480,000	3.50% to 5.00%	2035	45,280,000
Unlimited Tax School Building Bonds, Series 2015A	89,855,000	1.75% to 5.00%	2045	89,855,000
Unlimited Tax Refunding Bonds, Series 2015B	34,115,000	2.00% to 5.00%	2034	34,020,000
Unlimited Tax School Building Bonds, Series 2016A	41,460,000	2.00% to 5.00%	2041	41,460,000
Unlimited Tax Refunding Bonds, Series 2016B	39,000,000	2.00% to 5.00%	2034	39,000,000
Unlimited Tax Refunding Bonds, Series 2016C	14,050,000	2.00% to 5.00%	2031	14,050,000
				<u>\$ 362,215,000</u>

Annual debt service requirements to maturity for all bonded long-term debt outstanding as of August 31, 2016 as follows:

Year Ending August 31,	Principal	Interest	Totals
2017	\$ 9,215,000	\$ 15,058,025	\$ 24,273,025
2018	9,530,000	14,776,700	24,306,700
2019	9,830,000	14,472,331	24,302,331
2020	10,145,000	14,121,031	24,266,031
2021	10,770,000	13,762,194	24,532,194
2022-2026	62,340,000	62,172,694	124,512,694
2027-2031	77,455,000	47,141,506	124,596,506
2032-2036	86,965,000	29,608,613	116,573,613
2037-2041	55,390,000	12,391,000	67,781,000
2042-2045	30,575,000	2,946,900	33,521,900
	<u>\$ 362,215,000</u>	<u>\$ 226,450,994</u>	<u>\$ 588,665,994</u>

On May 5, 2016, the District issued \$41,460,000 in Unlimited Tax School Building Bonds Series 2016A (PSF). The bonds have an interest rate ranging from 2.0 percent and 5.0 percent. The bonds were issued at a premium in the amount of \$3,974,091. The bonds will be used to finance the construction, renovation, and equipping of school buildings, and to pay for issuance costs. The bonds mature in fiscal year 2041.

On May 5, 2016, the District also issued \$39,000,000 in Unlimited Tax Refunding Bonds, Series 2016B (PSF) with an interest rate ranging from 2.0 percent to 5.00 percent. The bonds are refunding in part Bonds Series 2009 in the amount of \$39,960,000. The liability associated with these refunded bonds has been removed from the Statement of Net Position. The reacquisition price of \$44,397,484 was less than the carrying value of the refunded bonds, which resulted in a deferred charge on refunding of \$4,298,428 and will be amortized over the remaining life of the refunded debt or refunding debt, whichever is shorter. This refunding resulted in an economic gain of \$3,952,785. The bonds were issued at a premium in the amount of \$5,317,658 and will be amortized over the life of the refunding debt. The bonds mature in fiscal year 2034.

Note 6 - Long-term Liabilities (continued)

Changes in Long-term Liabilities (continued)

On May 5, 2016, the District also issued \$14,050,000 in Unlimited Tax Refunding Bonds, Series 2016C (Non-PSF) with an interest rate ranging from 2.0 percent to 5.00 percent. The bonds are refunding in part Bonds Series 2008 in the amount of \$14,215,000. The liability associated with these refunded bonds has been removed from the Statement of Net Position. The reacquisition price of \$15,404,830 was more than the carrying value of the refunded bonds, which resulted in a deferred charge on refunding of \$146,824 and will be amortized over the remaining life of the refunded debt or refunding debt, whichever is shorter. This refunding resulted in an economic gain of \$1,933,959. The bonds were issued at a premium in the amount of \$1,336,653 and will be amortized over the life of the refunding debt. The bonds mature in fiscal year 2031.

In prior years and during the current years, the District defeased, certain general obligation debt by placing the proceeds of the new bonds in an irrevocable trust, to provide for all future debt service payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. At August 31, 2016, \$64,735,000 of the defeased debt remains outstanding.

Valero Settlement (See Note 11 - Contingencies)

The District Courts of the 136th District, 60th District and 58th District of Jefferson County entered into final judgments accepting the terms of a settlement agreement relating to a property value dispute between the Premcor Refining Group Inc., Port Arthur Coker Company, L.P. and Valero Energy Corporation (all referred to as "Valero") and Jefferson County Appraisal District which resulted in an approximate total refund of \$18,529,195 in taxes collected on property with the District. Such final judgments were made effective as of May 24, 2011, May 23, 2011 and June 3, 2011. Payments are due on September 15th of each fiscal year through September 2016 (i.e. fiscal year 2017).

During the fiscal year 2014, an agreed settlement in a property value dispute related to taxes collected during fiscal years 2014 and 2013, between The Premcor Pipeline Co, Premcor Refining Group Inc., Port Arthur Coker Company, L.P. and Valero Energy Corporation (all referred to as "Valero") and Jefferson County Appraisal District resulted in a total refund of \$13,533,445 in taxes collected on property with the District. The parties agreed this refund due to Valero as follows: \$6,300,000 paid on May 16, 2014, \$5,876,241 payable on May 15, 2015, and \$1,357,204 to be paid through a reduction in Chapter 313 revenues in fiscal year 2015.

In fiscal year 2015, an agreed settlement in a property value dispute related to taxes collected during fiscal years 2014, between The Premcor Pipeline Co, Premcor Refining Group Inc., Port Arthur Coker Company, L.P. and Valero Energy Corporation (all referred to as "Valero") and Jefferson County Appraisal District resulted in a total refund of \$1,953,672 in taxes collected on property with the District. The parties agreed this refund due to Valero was payable on December 23, 2015.

Note 6 - Long-term Liabilities (continued)

Motiva Refinery Refund

Due to an error by the taxpayer, Motiva Refinery, the District was notified by such taxpayer that it had inadvertently paid approximately \$1.5 million in ad valorem taxes in excess of the amount required to be paid to the District. The District and Motiva Refinery have entered into a 3 year repayment agreement consisting of \$350,000 from the Interest and Sinking portion of the tax levy and \$1,150,000 from the Maintenance and Operation Fund portion of the tax levy. Equal annual payments in each of the years 2016, 2017, and 2018 will be made to Motiva Refinery beginning on September 15, 2016. The related liability has been recognized by the District as of August 31, 2016.

The repayment schedule for all outstanding property tax lawsuit settlements and refunds is as follows:

<u>Year Ending August 31,</u>	<u>Payment Due</u>
2017	\$ 3,027,732
2018	498,537
2019	498,537
	<u>\$ 4,024,806</u>

Note 7 - Revenues from Local, Intermediate, and Out-of-State Sources

During the current year, revenues from local and intermediate sources consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>
Property Taxes	\$ 38,858,541	\$	\$ 25,211,938	\$	\$ 64,070,479
Payments in Lieu of Taxes	5,420,097				5,420,097
Investment Income	67,948	324	27,502	724,216	819,990
Co-curricular Student Activities	76,560				76,560
Food Sales		464,078			464,078
Insurance recovery				327,409	327,409
Other	660,692	610,602			1,271,294
	<u>\$ 45,083,838</u>	<u>\$ 1,075,004</u>	<u>\$ 25,239,440</u>	<u>\$ 1,051,625</u>	<u>\$ 72,449,907</u>

Note 8 - Defined Benefit Pension Plan

A. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Note 8 - Defined Benefit Pension Plan (continued)

B. Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System’s fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

C. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member’s age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member’s age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

D. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member’s annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS’ unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	Contribution Rates	
	Plan Fiscal Year	
	2015	2016
Member (Employee)	6.70%	7.20%
Non-employer contributing agency (State)	6.80%	6.80%
District	6.80%	6.80%

Note 8 - Defined Benefit Pension Plan (continued)

D. Contributions (continued)

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA). Contributions and pension expense for all contributors were as follows:

	<u>Measurement Year (2015)</u>		<u>Fiscal Year (2016)</u>
	<u>Contributions Required and Made</u>	<u>Pension Expense</u>	<u>TRS Contributions</u>
Member (Employee)	\$ 3,203,531	\$ -	\$ 3,551,525
Non-employer contributing agency (State)	2,361,214	4,015,140	2,433,035
District	973,705	930,944	1,050,178

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Note 8 - Defined Benefit Pension Plan (continued)

E. Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

F. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the nonemployer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

Note 8 - Defined Benefit Pension Plan (continued)

F. Discount Rate (continued)

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return *
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

** The Expected Contributions to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean*

G. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	1% Decrease 7%	Current Discount Rate 8%	1% Increase 9%
District's proportional share of the net pension liability	\$ 18,212,595	\$ 11,623,986	\$ 6,136,084

Note 8 - Defined Benefit Pension Plan (continued)

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2016, the District reported a liability of \$11,623,986 for its proportionate share of the TRS’s net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate share of the net pension liability	\$ 11,623,986
State's proportionate share of the net pension liability associated with the District	28,179,603
Total	<u>\$ 39,803,589</u>

The net pension liability was measured as of August 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer’s proportion of the net pension liability was based on the employer’s contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 thru August 31, 2015.

At August 31, 2015, the employer’s proportion of the collective net pension liability was 0.03288% which was a decrease from its proportion measured as of August 31, 2014 of 0.03882%.

Changes since the Prior Actuarial Valuation

The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

Economic Assumptions

1. The inflation assumption was decreased from 3.00% to 2.50%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
3. In accordance with the observed experience, there were small adjustments in the service based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Note 8 - Defined Benefit Pension Plan (continued)

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Mortality Assumptions (continued)

7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

13. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the year ended August 31, 2016, the District recognized pension expense of \$930,944, as well as revenue of \$4,015,140 representing pension expense incurred by the State on behalf of the District.

Note 8 - Defined Benefit Pension Plan (continued)

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

At August 31, 2016, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 133,402	\$ (446,720)
Changes of assumptions	560,693	(414,693)
Difference between projected and current investment earnings	485,191	
Changes in proportional share of contributions		(1,361,129)
District contributions subsequent to the measurement date	1,050,178	
Total	<u>\$ 2,229,464</u>	<u>\$ (2,222,542)</u>

The \$1,050,178 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended August 31, 2017. The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended August 31</u>	<u>Amount</u>
2017	\$ 312,934
2018	312,934
2019	312,934
2020	(479,579)
2021	244,419
2022	339,614
	<u>\$ 1,043,256</u>

Note 9 - Retiree Health Plan

Plan Description

The Port Arthur Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year. Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, school districts, and the State of Texas.

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.00% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2016, 2015, and 2014. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1.00%.

Contributions

Contributions made by the State, District, and staff members, for the years ended August 31, 2016, 2015, and 2014, are as follows:

For the Year Ended August 31	State TRS Care Contributions Made On Behalf of the District	District Required Contributions to TRS Care	Staff Members Contributions to TRS Care	Covered Payroll
2016	\$ 431,739	\$ 442,157	\$ 320,616	\$ 49,326,747
2015	416,263	324,855	310,784	47,813,903
2014	427,824	333,980	319,016	49,184,516

For the current fiscal year and each of the past two years, the District's actual contributions were equal to 100% of the required contributions. The contributions made by the State on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

Note 9 - Retiree Health Plan (continued)

Contributions (continued)

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2016, 2015, and 2014, the subsidy payments received by TRS-Care on behalf of the District were \$185,464, \$190,257, and \$128,115, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

Note 10 - Risk Management

Property/Liability

The District is exposed to various risks of loss related to property/liability losses for which the District carries commercial insurance. In addition, the District participates in the Interlocal Purchasing System (TIPS/TAPS), which provides general liability, auto liability, auto physical damage and Crime insurance. The District is also a member of the Texas Association of School Boards Joint Self-Insurance Fund (Fund), which provides Worker's Compensation Insurance. Illinois National provides Educators Legal Liability Insurance. There were no significant reductions in coverage in the current fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Note 11 - Contingencies

In September of 2012, a large petrochemical/refining company filed a lawsuit against the Jefferson County Appraisal District (JCAD) contesting property values assigned for the 2012 tax year; subsequently, the petrochemical/refining company amended its lawsuit to include the 2013-14 fiscal year. JCAD provides property values for the District's annual assessment of local property taxes. The lawsuit impacted the local tax levy for the 2012-13 and 2013-14 fiscal years. Like lawsuits have been filed by this same company in several counties along the southeast Texas Gulf coast. During fiscal year 2014, the District agreed to a settlement with the petrochemical/refining company that resulted in a liability of \$13,533,445. A final settlement payment was made subsequent to year-end in the amount of \$2,529,195. See Note 6 for additional information.

For Fiscal Year 2017, JCAD and the same petrochemical/refining company reached an agreement on the taxable value of the company's property contained in the JCAD tax rolls without any litigation. The agreed taxable value for the 2016 tax year, reflects an approximate decrease of \$68,000,000 of the overall decrease of \$350,310,295 from the 2015 taxable assessed valuation of \$8,060,861,543 compared to the 2016 taxable assessed valuation of \$7,710,551,248 contained in the JCAD rolls. A portion of the decrease of approximately \$68,000,000 in the taxable value of the company's property may be reflective of the overall decrease in the taxable values related to the oil and gas industry. The recent decrease in oil and gas prices has had a negative impact on all taxable property contained in the JCAD tax rolls which is reflected in the \$350,310,295 decrease in taxable assessed valuation compared to 2015 JCAD tax rolls.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Note 11 - Contingencies (continued)

From time to time, the District is a defendant in legal proceedings relating to its operations as a school district. Although the outcome of these lawsuits is not presently determinable, in the opinion of management and the District's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

Note 12 - Arbitrage

In accordance with the provisions of Section 148(f) of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Positive arbitrage is the excess of (1) the amount earned on investments purchased with bond proceeds over (2) the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. In order to comply with the arbitrage rebate requirements, positive arbitrage must be paid to the U.S. Treasury at the end of each five year anniversary date of the bond issue. The District does not have an arbitrage liability as of August 31, 2016.

Note 13 - Operating Leases

The District leases copiers under non-cancelable operating leases. Total costs for operating leases were \$439,103 for the year ended August 31, 2016. From this amount only \$17,356 was paid related to the non-cancelable operating leases, the remaining amount of \$421,747 was paid related to annual operating lease agreements. Operating lease obligations are payable from the general fund. The future minimum lease payments for the non-cancelable operating leases are as follows:

Year Ending	Amount
August 31	
2016	\$ 17,356
2017	17,356
2018	17,356
2019	14,464
Total	\$ 66,532

Note 14 - Prior Period Adjustment

Correction of an Error

The District recorded a prior period adjustment for the correction of an error for the special revenue fund, eliminating uncollectible receivables and overstated revenues from prior years' activity.

Summary

The following is a summary of the prior period adjustments to the net position of the governmental activities:

	Governmental Activities
Beginning Net Position - As Originally Presented	\$ 24,687,925
Prior Period Restatement	
Overstatement of prior year Special Revenue fund revenue	(792,948)
Beginning Net Position - As Restated	<u>\$ 23,894,977</u>
	Governmental Funds
Beginning Fund Balance - As Originally Presented	\$ 138,177,206
Prior Period Restatement	
Overstatement of prior year Special Revenue fund revenue	(792,948)
Beginning Fund Balance - As Restated	<u>\$ 137,384,258</u>

Note 15 - Subsequent Event

In November 2016, the District issued \$27,350,000 in Unlimited Tax Refunding Bonds, Series 2016D and \$55,840,000 in Unlimited Tax Refunding Bonds, Series 2016E. The proceeds of the Bonds were used to refund all or a portion of certain Bonds of the District outstanding as of August 31, 2016 and to pay for the costs of issuance of the Bonds.

REQUIRED SUPPLEMENTARY INFORMATION

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PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

Exhibit G-1

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended August 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)	
	Original	Final			
Revenues					
5700	Local, intermediate, and out-of-state	\$ 49,116,969	\$ 49,116,969	\$ 45,083,838	\$ (4,033,131)
5800	State program revenues	26,305,517	26,305,517	30,668,470	4,362,953
5900	Federal program revenues	1,323,522	1,323,522	1,438,833	115,311
	Total revenues	<u>76,746,008</u>	<u>76,746,008</u>	<u>77,191,141</u>	<u>445,133</u>
Expenditures					
Current:					
0011	Instruction	40,943,184	42,409,310	41,169,727	1,239,583
0012	Instructional resources and media services	845,321	854,408	725,839	128,569
0013	Curriculum and instructional staff development	611,272	668,598	616,182	52,416
0021	Instructional leadership	1,810,334	1,836,902	1,805,570	31,332
0023	School leadership	4,879,574	4,859,849	4,870,136	(10,287)
0031	Guidance, counseling and evaluation services	2,284,159	2,165,619	2,045,339	120,280
0032	Social work services	359,338	362,190	287,845	74,345
0033	Health services	767,929	855,071	812,445	42,626
0034	Student transportation	2,944,812	2,903,687	2,750,720	152,967
0035	Food services	136,742	182,484	140,266	42,218
0036	Extracurricular activities	1,702,458	1,861,419	1,811,768	49,651
0041	General administration	3,166,548	3,682,367	3,471,693	210,674
0051	Facilities maintenance and operations	11,590,679	12,167,771	11,282,438	885,333
0052	Security and monitoring services	1,814,245	1,835,271	1,592,141	243,130
0053	Data processing services	1,702,088	1,956,762	1,843,997	112,765
0061	Community services	287,830	250,818	166,195	84,623
Capital outlay					
0081	Facilities acquisition and construction		25,000	20,510	4,490
Intergovernmental					
0095	Payments to Juvenile Justice AEP	119,500	119,500	108,000	11,500
0099	Payments to appraisal district	780,000	780,000	727,651	52,349
	Total Expenditures	<u>76,746,013</u>	<u>79,777,026</u>	<u>76,248,462</u>	<u>3,528,564</u>
1100	Excess (deficiency) of revenues over expenditures	(5)	(3,031,018)	942,679	3,973,697
Other Financing Sources (Uses)					
7912	Sale of real or personal property			42,890	42,890
7915	Operating Transfers In			60,246	60,246
8911	Operating Transfers Out			(619,694)	(619,694)
8949	Other Uses		(6,136,537)	(5,107,984)	1,028,553
	Total Other Financing Sources (Uses)		<u>(6,136,537)</u>	<u>(5,624,542)</u>	<u>511,995</u>
	Net change in fund balances	(5)	(9,167,555)	(4,681,863)	4,485,692
0100	Fund Balance - September 1 (Beginning)	29,919,306	29,919,306	29,919,306	
	Prior period adjustment			(720,275)	(720,275)
3000	Fund Balance - August 31 (Ending)	<u>\$ 29,919,301</u>	<u>\$ 20,751,751</u>	<u>\$ 24,517,168</u>	<u>\$ 3,765,417</u>

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

Exhibit G-2

BUDGETARY COMPARISON SCHEDULE

CHILD NUTRITION PROGRAM

For the Year Ended August 31, 2016

Data Control Codes	Child Nutrition				
	Budget			Variance Favorable (Unfavorable)	
	Original	Final	Actual		
Revenues					
5700	Local, intermediate, and out-of-state	\$ 769,000	\$ 666,500	\$ 466,305	\$ (200,195)
5800	State program revenues	10,000	10,000	35,310	25,310
5900	Federal program revenues	5,156,002	5,296,747	5,186,841	(109,906)
5030	Total Revenues	<u>5,935,002</u>	<u>5,973,247</u>	<u>5,688,456</u>	<u>(284,791)</u>
Expenditures					
Current:					
0035	Food services	5,945,002	5,983,247	5,743,671	239,576
6030	Total Expenditures	<u>5,945,002</u>	<u>5,983,247</u>	<u>5,743,671</u>	<u>239,576</u>
1100	Excess (deficiency) of revenues over expenditures	(10,000)	(10,000)	(55,215)	(45,215)
Other Financing Sources (Uses)					
7912	Sale of real and personal property	10,000	10,000		(10,000)
	Other Financing Sources (Uses)	<u>10,000</u>	<u>10,000</u>		<u>(10,000)</u>
1200	Net change in fund balance			(55,215)	(55,215)
0100	Fund Balance - September 1 (Beginning)	<u>282,497</u>	<u>282,497</u>	<u>282,497</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ 282,497</u>	<u>\$ 282,497</u>	<u>\$ 227,282</u>	<u>\$ (55,215)</u>

The District adopts annual appropriations type budgets for the General Fund, Child Nutrition Program included in the Special Revenue Fund, and the Debt Service Fund using the same method of accounting as for financial reporting, as required by law. The General Fund Budget Schedule and the Child Nutrition Program Budget Schedule appear on Exhibit G-1 and G-2, respectively, and the Debt Service Fund Budget Schedule is on Exhibit J-4.

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end. During the year ended August 31, 2016, the Board of Trustees approved budget amendments increasing expenditures as follows:

	<u>General Fund</u>	<u>Child Nutrition Program</u>	<u>Debt Service Fund</u>
Amendments Approved	\$ 3,031,013	\$ 38,245	\$ 609,401

The administrative level at which responsibility for control of budgeted appropriations begins is at the organizational level within each function of operations. The finance department reviews closely the expenditure requests submitted by the various organizational heads (principal and department heads) throughout the year to ensure proper spending compliance. No public funds of the District shall be expended in any manner other than as provided for in the budget adopted by the Board of Trustees.

The official school budget was prepared for adoption for budgeted governmental fund types by August 27, 2015. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency (TEA) through inclusion in the annual financial and compliance report.

Encumbrance accounting is utilized in all government fund types. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at year-end and encumbrances outstanding at that time are appropriately provided for in the subsequent year's budget.

The District actual total expenditures exceeded final budgeted amounts in the General Fund's function 23 in the amount of \$10,287, however, overall the District operated within the adopted final budget.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY

Exhibit G-4

Teacher Retirement System of Texas

For the Last Two Measurement Years Ended August 31 (1)

	<u>2015</u>	<u>2014</u>
District's proportion of the net pension liability	0.032884%	0.038821%
District's proportionate share of the net pension liability	\$ 11,623,986	\$ 10,371,816
State's proportionate share of the net pension liability associated with the District	28,179,603	25,590,134
Total	<u>\$ 39,803,589</u>	<u>\$ 35,961,950</u>
District's covered-employee payroll (for Measurement Year)	\$ 47,813,903	\$ 49,184,516
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	24.3%	21.1%
Plan fiduciary net position as a percentage of the total pension liability *	78.43%	83.25%
Plan's net pension liability as a percentage of covered-employee payroll *	91.94%	72.89%

Notes: Ten years of data should be presented in this schedule but data is unavailable prior to 2014.

Net pension liability and related ratios will be presented prospectively as data becomes available.

Net pension liability is calculated using an new methodology and will be presented prospectively in accordance with GASB 68.

of the District's
fiscal year.

* Per TRS's CAFR

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

Exhibit G-5

SCHEDULE OF DISTRICT CONTRIBUTIONS

Teachers Retirement System of Texas

Last Five Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contributions	\$ 1,050,178	\$ 973,705	\$ 984,427	\$ 797,769	\$ 770,625
Contributions in relation to the contractual required contributions	<u>1,050,178</u>	<u>973,705</u>	<u>984,427</u>	<u>797,769</u>	<u>770,625</u>
Contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered employee payroll	\$ 49,326,747	\$ 47,813,903	\$ 49,184,516	\$ 48,277,029	\$ 50,928,308
Contributions as a percentage of covered employee payroll	2.13%	2.04%	2.00%	1.65%	1.51%

Notes to Required Supplementary Information

Effective September 1, 2014, employers who did not contribute Social Security for TRS-eligible employees were required to contribute an additional 1.5% of TRS-eligible compensation which nearly doubled the District's contributions into the Plan. Because the District's proportional share of the plan is determined by its proportional share of contributions, the District recognized a corresponding increase in its share of net pension liability.

Changes of Assumptions

New actuarial assumptions were adopted by the Teacher Retirement System of Texas' Board of Trustees on September 24, 2015 and are effective with the valuation as of August 31, 2015. The major assumptions changes were the adoption of the use of generational mortality for the purpose of predicting future mortality improvement and the reduction in the inflation rate from 3.00% to 2.50%.

Changes of Benefit Terms

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

REQUIRED TEA SCHEDULES

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2016

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>Net Assessed/Appraised Value For School Tax Purposes</u>	<u>Beginning Balance 9/1/15</u>
	<u>1</u>	<u>2</u>		
	<u>Maintenance</u>	<u>Debt Service</u>		
2007 and prior	Various	Various	Various	\$ 1,822,543
2008	1.370000	0.238400	4,214,476,064	199,795
2009	1.040000	0.271100	4,862,116,593	291,766
2010	1.040000	0.306000	5,080,668,141	375,600
2011	1.040000	0.330000	4,379,583,650	447,871
2012	1.040000	0.327600	4,425,423,227	546,776
2013	1.040000	0.312600	5,039,626,855	617,475
2014	1.040000	0.313120	5,541,350,428	922,383
2015	1.040000	0.313480	4,973,881,624	1,283,721
2016	1.040000	0.313140	4,749,619,404	
1000 Totals				<u><u>\$ 6,507,930</u></u>

Exhibit J-1

20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 8/31/16
\$	\$ 26,736	\$ 2,359	\$ (357,749)	\$ 1,435,699
	8,999	1,566	(8,721)	180,509
	14,494	3,778	(11,797)	261,697
	25,224	7,422	(12,996)	329,958
	34,380	10,909	(12,057)	390,525
	50,169	15,803	(4,541)	476,263
	67,973	20,431	(2,563)	526,508
	111,935	33,701	1,201	777,948
	287,692	86,717	(484,336)	424,976
<u>64,269,000</u>	<u>37,852,227</u>	<u>24,812,613</u>		<u>1,604,160</u>
<u>\$ 64,269,000</u>	<u>\$ 38,479,829</u>	<u>\$ 24,995,299</u>	<u>\$ (893,559)</u>	<u>\$ 6,408,243</u>

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
For the Year Ended August 31, 2016

Exhibit J-4

Data Control Codes	Debt Service Fund				
	Budget			Variance Favorable (Unfavorable)	
	Original	Final	Actual		
Revenues					
5700	Local, Intermediate, and Out-of-State	\$ 26,561,338	\$ 26,561,338	\$ 25,239,440	\$ (1,321,898)
5800	State Program Revenues			276,612	276,612
5030	Total Revenues	<u>26,561,338</u>	<u>26,561,338</u>	<u>25,516,052</u>	<u>(1,045,286)</u>
Expenditures					
Debt Service:					
0071	Debt service - principal	10,570,000	10,570,000	6,990,000	3,580,000
0072	Debt service - interest	15,946,338	15,946,338	15,681,448	264,890
0073	Debt issuance cost & fees	45,000	654,401	648,237	6,164
6030	Total Expenditures	<u>26,561,338</u>	<u>27,170,739</u>	<u>23,319,685</u>	<u>3,851,054</u>
1100	Excess (Deficiency) Revenues Over Expenditures		(609,401)	2,196,367	2,805,768
Other Financing Sources (Uses)					
7901	Refunding bond issue			53,050,000	53,050,000
7915	Operating transfers in			43,366	43,366
7916	Premium on issuance of bonds		609,401	6,654,311	6,044,910
8949	Other uses		(750,000)	(60,528,807)	(59,778,807)
	Total Other Financing Sources (Uses)		<u>(140,599)</u>	<u>(781,130)</u>	<u>(640,531)</u>
1200	Net change in fund balances		(750,000)	1,415,237	2,165,237
0100	Fund Balance - September 1 (Beginning)	<u>6,089,092</u>	<u>6,089,092</u>	<u>6,089,092</u>	
3000	Fund Balance - August 31 (Ending)	<u>\$ 6,089,092</u>	<u>\$ 5,339,092</u>	<u>\$ 7,504,329</u>	<u>\$ 2,165,237</u>

FEDERAL AWARDS SECTION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Port Arthur Independent School District
Port Arthur, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and by the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Port Arthur Independent School District (the “District”) as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated January 25, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Trustees
Port Arthur Independent School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of the testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
January 25, 2017

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE *UNIFORM GUIDANCE***

To the Board of Trustees
Port Arthur Independent School District
Houston, Texas

Report on Compliance for Each Major Federal Program

We have audited Port Arthur Independent School District's (the "District") compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the type of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

To the Board of Trustees
Port Arthur Independent School District

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Houston, Texas
January 25, 2017

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended August 31, 2016

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	No

Identification of major programs:

Name of Federal Program:	CFDA Number:
<i>Title II, Part A, Teacher, Principal, Training & Recruiting Special Education Cluster</i>	84.367A
IDEA, Part B - Formula	84.027A
IDEA, Part B – Preschool	84.173A
<i>Early Head Start Program</i>	93.600
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended August 31, 2016

II. Financial Statement Findings

None reported.

III. Federal Award Findings and Questioned Costs

None reported.

IV. Status of Prior Year Findings

None reported.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2016

Exhibit K-1

(2a) NOGA ID/ Pass-Through Entity Identifying Number	Fund Code	(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(3) Federal Expenditures
U.S. Department of Defense				
Direct Program:				
N/A	288	<i>Naval JROTC</i>	12.000	\$ 6,636
Total U.S. Department of Defense				6,636
U.S. Department of Agriculture				
Child Nutrition Cluster:				
Pass-Through Texas Department of Agriculture:				
Non cash assistance:				
CE-123907	240	<i>National School Lunch Program (Commodities)</i>	10.555	492,744
Total Pass-Through Texas Department of Agriculture				492,744
Pass-Through Texas Education Agency:				
Cash assistance:				
71401601	240	<i>School Breakfast Program</i>	10.553	1,388,422
71301601	240	<i>National School Lunch Program</i>	10.555	3,305,675
Total Pass-Through Texas Education Agency				4,694,097
Total Child Nutrition Cluster				5,186,841
Total U. S. Department of Agriculture				5,186,841
U. S. Department of Education				
Pass-Through Texas Education Agency:				
Title I Part A:				
16610101123907	211	<i>ESEA, Title I, Part A - Improving Basic Programs</i>	84.010A	3,296,561
16610112123907000	211	<i>Title I, 1003(a) Priority and Focus School Program</i>	84.010A	126,676
Total Title I Part A				3,423,237
16615001123907	212	<i>ESEA, Title I, Part C - Migrant</i>	84.011A	224,893
Special Education Cluster:				
166600011239076000	224	<i>IDEA, Part B - Formula</i>	84.027A	1,830,451
166610011239076000	225	<i>IDEA, Part B - Preschool</i>	84.173A	21,224
Total Special Education Cluster				1,851,675
16420006123907	244	<i>Career and Technical - Basic Grant</i>	84.048A	27,561
16671001123907	263	<i>ESEA, Title III, Part A - LEP</i>	84.365A	137,799
16694501123907	255	<i>Title II, Part A, Teacher, Principal, Training & Recruiting</i>	84.367A	990,812
69551502	289	<i>Summer School LEP</i>	84.369A	5,565
Total Pass-Through Texas Education Agency				6,661,542
Total U. S. Department of Education				6,661,542
U. S. Department of Health and Human Services				
Direct:				
06CH7091	205	<i>Early Head Start Program</i>	93.600	1,969,351
Total Direct				1,969,351
Pass-Through Texas Health and Human Services Commission:				
N/A	199	<i>Medicaid Administrative Claims (MAC)</i>	93.778	36,239
Total Pass-Through Texas Health and Human Services Commission				36,239
Total U. S. Department of Health and Human Services				2,005,590
Total Expenditures of Federal Awards				\$ 13,860,609

Note 1 -Basis of Accounting

The District accounts for all awards under federal programs in the General and Special Revenue Fund in accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement. Pass-through entity identifying numbers are presented where available.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such amounts are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods. The District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2016. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 3 - Reconciliation to Basic Financial Statements

The following is a reconciliation of expenditures of federal awards program per Exhibit K-1 and expenditures reported on Exhibit C-3:

Total Expenditures of Federal Awards	\$ 13,860,609
Add:	
SHARS	1,144,945
Reconciled Balance	<u>\$ 15,005,554</u>
Related Expenditures on Exhibit C-3	
General Fund	\$ 1,438,833
Special Revenue Fund	13,566,721
	<u>\$ 15,005,554</u>

Note 4 - General Fund Expenditures

Federal Awards reported in the general fund are summarized as follows:

Program or Source	CFDA Number	Amount
ESEA, Title I, Part A - Improving Basic Programs	84.010A	\$ 134,294
ESEA, Title I, Part C - Migrant	84.011A	8,273
IDEA, Part B - Formula	84.027A	67,734
Career and Technical - Basic Grant	84.048A	4,602
IDEA, Part B - Preschool	84.173A	767
ESEA, Title III, Part A - LEP	84.365A	2,529
Title II, Part A, Teacher, Principal, Training & Recruiting	84.367A	39,450
Medicaid Administrative Claims (MAC)	93.778	36,239
School Health and Related Services Program (SHARS)	N/A	1,144,945
		\$ 1,438,833

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Schedule L-1 – Required Responses to Selected School FIRST Indicators

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$ 0
SF11	Net Pension Assets (1920) at fiscal year-end.	\$ 0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	\$ 11,623,986
SF13	Pension Expense (6147) at fiscal year-end.	\$ 930,943